

FORECASTS COMPARISON

Idaho has a dynamic economy whose growth is influenced by a myriad of local, national, and international factors. Therefore, changes to the projected values of such diverse variables as oil prices, interest rates, and national housing starts can have an effect at the state level. In order to account for the effects of such changes on the state's economy, each issue of the *Idaho Economic Forecast* uses DRI*WEFA's most recent forecast of the U.S. economy. Additional data, such as company-specific expansions and/or contractions are also considered.

The following comparison table shows how the outlooks for several key Idaho and national economic series have changed from the July 2001 to the October 2001 *Idaho Economic Forecast*. The July 2001 Idaho forecast is based on DRI's June 2001 U.S. macroeconomic forecast and the October 2001 Idaho forecast is driven by DRI*WEFA's September 2001 "shock" forecast.

The major difference between the current and previous U.S. macroeconomic forecasts is DRI*WEFA now expects the economy to suffer a mild recession. There was no recession in the previous forecast. The U.S. economy had been slowing noticeably even before the events of September 11, 2001. But the fallout from that terrible day lowered projections further. Thus, the differences between the previous and the current forecasts reflect the ongoing slowing of the economy and the repercussions of the terrorists' attacks. A look at the GDP shows the combined impact of these two factors on the overall economy. Real GDP is down 1.6% in 2001, 2.3% in 2002, 1.4% in 2003, and 1.7% in 2004. Obviously, the economy takes its biggest hit in 2002. Other data also suggest next year will be a challenge. National nonfarm employment is down 0.2% this year, 0.8% next year, and 0.4% in 2003. Interestingly, the relative declines are spread virtually even between the goods-producing and services-producing sectors in 2001 and 2002. The current forecast shows U.S. real personal income is projected to be slightly higher than previously projected in 2001, but unchanged in 2002. Interest rates are lower in both these years, reflecting the assumption the Federal Reserve will continue to aggressively loosen to help restart the economy. The accompanying table shows lower inflation rates over the next four years, which is consistent with the weaker economic outlook.

The negative impacts of the U.S. economic slowdown will be felt in Idaho after a short lag. Notice that both 2001 Idaho nonfarm employment and real personal income is virtually unchanged from the previous forecast. This will change markedly after this year. Idaho nonfarm employment is down 0.5% in both 2002 and 2003 and off nearly 1.0% in 2004. Put another way, Idaho nonfarm employment goes from being 272 above the previous forecast in 2001 to nearly 5,500 below it in 2004. The goods-producing sector is hardest hit. By 2004, its employment is almost 4,500 lower than had been forecast previously. The services-producing employment is down about 1,000 from the July 2001 projection. Given the employment forecast, it is no surprise Idaho personal income also grows weaker over the forecast period. Specifically, Idaho nominal personal income goes from being \$56 million above the previous forecast in 2001 to \$320 lower in 2004. Idaho real personal income displays a similar pattern, but the decline is not as steep thanks to lower inflation over the forecast period.

IDAHO ECONOMIC FORECAST
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DIFFERENCES BETWEEN
OCTOBER 2001 AND JULY 2001 FORECASTS

	1999	2000	2001	2002	2003	2004
GDP (BILLIONS)						
Current \$	-31	-90	-183	-314	-250	-305
% Difference	-0.3%	-0.9%	-1.8%	-2.9%	-2.2%	-2.5%
1996 Chain-Weighted	-19	-95	-152	-224	-144	-179
% Difference	-0.2%	-1.0%	-1.6%	-2.3%	-1.4%	-1.7%
PERSONAL INCOME - CURR \$						
Idaho (Millions)	0	1	56	-125	-109	-320
% Difference	0.0%	0.0%	0.2%	-0.4%	-0.3%	-0.8%
U.S. (Billions)	-12	37	70	-28	1	-31
% Difference	-0.2%	0.5%	0.8%	-0.3%	0.0%	-0.3%
PERSONAL INCOME - 1996 \$						
Idaho (Millions)	33	-43	82	-25	-12	-226
% Difference	0.1%	-0.1%	0.3%	-0.1%	0.0%	-0.7%
U.S. (Billions)	-3	23	72	-2	22	-14
% Difference	0.0%	0.3%	0.9%	0.0%	0.3%	-0.2%
TOTAL NONFARM EMPLOYMENT						
Idaho	6	-11	272	-2,748	-3,012	-5,448
% Difference	0.0%	0.0%	0.0%	-0.5%	-0.5%	-0.9%
U.S. (Thousands)	0	0	-325	-1,094	-487	90
% Difference	0.0%	0.0%	-0.2%	-0.8%	-0.4%	0.1%
GOODS PRODUCING SECTOR						
Idaho	0	-11	-61	-2,551	-3,029	-4,463
% Difference	0.0%	0.0%	-0.1%	-2.2%	-2.6%	-3.7%
U.S. (Thousands)	0	0	-57	-209	33	139
% Difference	0.0%	0.0%	-0.2%	-0.9%	0.1%	0.6%
SERVICE PRODUCING SECTOR						
Idaho	5	0	332	-198	17	-986
% Difference	0.0%	0.0%	0.1%	0.0%	0.0%	-0.2%
U.S. (Thousands)	0	0	-268	-885	-520	-49
% Difference	0.0%	0.0%	-0.2%	-0.8%	-0.5%	0.0%
FINANCIAL MARKETS						
Federal Funds Rate	0.0	0.0	-0.3	-0.6	0.3	0.3
Bank Prime Rate	0.0	0.0	-0.3	-0.5	0.3	0.3
Mort Rate, Existing Homes	0.0	0.0	-0.3	-0.3	0.3	0.5
INFLATION						
GDP Price Deflator	-0.1	0.1	-0.2	-0.6	-0.8	-0.9
Personal Cons Deflator	-0.1	0.2	-0.1	-0.3	-0.3	-0.2
Consumer Price Index	0.0	0.0	-0.6	-1.0	-1.0	-0.7

Forecast Begins the SECOND Quarter of 2001